

**CITY OF STURGIS, MICHIGAN**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**SEPTEMBER 30, 2004**

75-2010

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Sturgis</b>	County <b>St. Joseph</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>3/24/05</b>	Date Accountant Report Submitted to State: <b>4/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

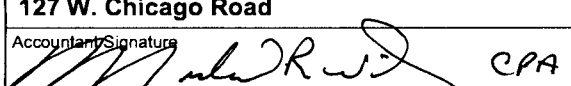
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Norman &amp; Paulsen, P.C.</b>			
Street Address <b>127 W. Chicago Road</b>	City <b>Sturgis</b>	State <b>MI</b>	ZIP <b>49091</b>
Accountant Signature  CPA		Date <b>4/08/05</b>	

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# N & P

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of the City Commission  
City of Sturgis, Michigan

**Norman & Paulsen, P.C.**

*Certified Public Accountants*

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sturgis management. We did not audit the financial statements of the Sturgis Hospital Enterprise Fund, which is both a major fund and 30 percent, 29 percent, and 68 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sturgis Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sturgis, Michigan, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrel T. Norman (1941-1982)

The management's discussion and analysis, budgetary comparison schedules, and retirement system schedules of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sturgis basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2005, on our consideration of the City of Sturgis internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Norman & Paulsen, P.C.*

March 24, 2005

## CITY OF STURGIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Sturgis financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the City's financial statements.

#### Financial Highlights

The City's overall financial position increased by \$3,415,834 during the fiscal year ended September 30, 2004, which represents a 5.5 percent increase in net assets from \$62,601,887 at the beginning of the year to \$66,017,721 at the end of the year. Included in the City's total net assets are the Hospital Fund and the Electric Utility Fund. The Hospital's net assets increased by \$3,902,122 to \$14,973,054. The Electric Utility's net assets increased by \$1,128,416 to \$26,913,125.

The City's Governmental Funds reflected a total fund balance at September 30, 2004 of \$3,650,842, which was a decrease of \$578,407 from the prior year end.

The City's property tax rate has remained at \$10.82 per \$1,000 of taxable valuation.

State revenue sharing continues to be cut by the State of Michigan. The decrease in State revenue sharing in the General Fund was \$124,781 or 10 percent compared to the prior year.

The total Governmental Fund expenditures for the year ended September 30, 2004, amounted to \$9,419,387, of which \$3,483,429 (37 percent) was for public safety, \$2,156,796 (23 percent) was for recreation and cultural, and \$2,020,023 (21 percent) was for public works.

# CITY OF STURGIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

	(dollars presented in thousands)			
	Governmental Funds		Enterprise Funds	
	2004	2003	2004	2003
Assets	\$ 7,188	\$ 7,706	\$ 72,632	\$ 68,706
Liabilities	3,537	3,477	22,048	22,391
Fund Equity				
Invested in capital assets, net of related debt	-	-	29,610	29,554
Retained Earnings				
Restricted	-	-	1,915	1,781
Unreserved	-	-	19,059	14,980
Fund Balances				
Reserved	851	837	-	-
Unreserved	2,800	3,392	-	-
Total Fund Equity	\$ 3,651	\$ 4,229	\$ 50,584	\$ 46,315

# CITY OF STURGIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity decreased by 13.7 percent or \$578,407 from a year ago. In contrast the prior years governmental fund equity increased by 4.7 percent or \$190,434.

The City's enterprise fund equity increased by 9.2 percent or \$4,269,684 from a year ago. In contrast the prior years enterprise fund equity decreased by .3 percent or \$162,518.

The following table shows, in a condensed format, the net assets of the current date as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2004	2003	2004	2003
Current and other assets	\$ 7,881	\$ 8,537	\$ 26,870	\$ 22,373
Capital assets	11,305	11,278	44,157	44,600
Total assets	19,186	19,815	71,027	66,973
Long-term debt outstanding	1,679	1,519	5,157	14,628
Other liabilities	3,024	3,042	14,336	4,997
Total liabilities	4,703	4,561	19,493	19,625
Net assets				
Invested in capital assets, net of related debt	10,415	10,321	30,850	30,924
Restricted	851	837	1,914	1,781
Unrestricted	3,217	4,096	18,770	14,643
Total net assets	<u>\$ 14,483</u>	<u>\$ 15,254</u>	<u>\$ 51,534</u>	<u>\$ 47,348</u>

# CITY OF STURGIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2004	2003	2004	2003
Revenue				
Property taxes	\$ 2,803	\$ 2,979	\$ -	\$ -
In lieu of taxes	1,214	1,159	-	-
Special assessments	122	52	-	-
Licenses and permits	100	95	-	-
Grants	251	325	88	644
State shared revenues	1,932	2,019	-	-
Charges for services	972	1,010	57,587	52,818
Fines and forfeits	134	145	-	-
Interest income	257	342	188	77
Administrative reim.	791	769	-	-
Other	320	229	3,285	1,027
Loan proceeds	-	375	-	-
Total revenue	8,896	9,499	61,148	54,566
Program expenses				
General government	1,508	1,357	-	-
Public safety	3,483	3,219	-	-
Public works	2,020	1,476	-	-
Recreation and culture	2,157	2,187	-	-
Other	149	214	-	-
Capital outlay	111	815	-	-
Debt service	46	41	-	-
Hospital activity	-	-	36,533	34,648
Electric system	-	-	12,505	12,189
Sewer system	-	-	1,078	1,104
Water system	-	-	661	571
EMS/Ambulance activity	-	-	361	-
Economic Enhancement	-	-	105	189
Other	-	-	39	24
Loan loss provision	-	-	200	475
In lieu of taxes	-	-	1,205	1,148
Depreciation and amortization	-	-	3,561	3,711
Interest expense	-	-	630	670
Total expenses	9,474	9,309	56,878	54,729
Excess (Deficiency)	\$ (578)	\$ 190	\$ 4,270	\$ (163)

# CITY OF STURGIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2004	2003	2004	2003
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 1,801	\$ 2,078	\$ 58,113	\$ 53,424
Operating grants and contributions	1,097	961	127	160
Capital grants and contributions	279	206	2,500	563
General revenues				
Property taxes	2,904	2,933	-	-
State shared revenues	1,123	1,232	-	-
Unrestricted investment earnings	259	345	193	83
Miscellaneous	100	139	198	327
Payments in lieu of taxes	1,214	1,159	-	-
Transfers	(55)	(100)	55	100
<b>Total revenues</b>	<b>8,722</b>	<b>8,953</b>	<b>61,186</b>	<b>54,657</b>
<b>Expenses</b>				
General government	1,556	1,431	-	-
Public safety	3,732	3,430	-	-
Public works	1,984	1,476	-	-
Recreation and cultural	2,085	2,254	-	-
Unallocated	94	165	-	-
Interest on long-term debt	41	53	-	-
Hospital services	-	-	37,502	35,726
Electric system	-	-	15,727	15,531
Sewer system	-	-	1,951	1,923
Water system	-	-	1,079	962
Other	-	-	741	699
<b>Total expenses</b>	<b>9,492</b>	<b>8,809</b>	<b>57,000</b>	<b>54,841</b>
<b>Change in net assets</b>	<b>\$ (770)</b>	<b>\$ 144</b>	<b>\$ 4,186</b>	<b>\$ (184)</b>

## CITY OF STURGIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Governmental Activities

For the year ended September 30, 2004, the net assets of governmental activities decreased by \$770,080 or 5 percent of beginning net assets. The net decrease was primarily the result of a decrease in State revenue sharing of \$125,000, an increase in public safety expenses of \$300,000, and increase in public works expenses (major and local streets) of \$500,000, and a decrease in recreation and cultural expenses of \$170,000.

#### Business-Type Activities

For the year ended September 30, 2004, the net assets of business-type activities increased by \$4,185,914 or 8.8 percent of beginning net assets. This decrease was comprised of the following by specific activity:

	Increase (Decrease)
Hospital services	\$ 3,902,122
Electric system	1,128,416
Sewer system	(483,552)
Water system	(97,345)
Other	(263,727)
Total	<u>\$ 4,185,914</u>

The Hospital's increase in net assets resulted from an operating income of approximately \$1.3 million and a pledge received from the estate of a local resident of \$2.5 million.

The Electric system's increase in net assets of \$1,128,416 is comparable to the prior year increase of \$1,204,154.

The Sewer system's decrease in net assets of \$483,552 is comprised of a loss before capital contributions of \$483,552 which is comparable to the prior year loss before capital contributions of \$508,198.

The water system's decrease in net assets of \$97,345 is comprised of a loss before capital contributions of \$97,345 compared to a prior year profit before capital contributions of \$26,289.

Other net asset decreases of \$263,727 include the Economic Development Fund which recorded a provision for loan losses in the amount of \$200,000.

#### Component Units

The City includes two other entities in its report - the Sturgis Downtown Development Authority and the Sturgis Housing Development Corporation. Although legally separate, these "component units" are important because the City is financially accountable for them.

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**The City's Funds**

Our analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended September 30, 2004 include the General Fund, Major Street Fund, and Local Street Fund.

The General fund pays for most of the City's governmental services. The primary services provided include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes, state shared revenues, and an administrative reimbursement charge to other funds and City operations.

The Major Street Fund and Local Street Fund are funded primarily from State Act 51 revenue sharing and a County wide tax mileage. The primary services provided are the construction and maintenance of major and local streets.

**General Fund Budgetary Highlights**

As shown in the required supplemental information, the City budgeted an increase of \$50,338 in the original budget and a deficit of \$276,770 in the amended budget. Actual operating results ended up as a decrease in fund balance of \$241,611.

The original budget was amended for:

Decrease in legislative expenditures	\$	20,000
Increase in general governmental expenditures		13,110
Increase in public safety expenditures		235,000
Decrease in public works expenditures		15,000
Increase in capital outlay expenditures		114,000

The significant budget-to-actual differences are as follows:

Interest revenue was lower than projected due to lower bank rates.

Capital outlay expenditures were under the budgeted amount due to projects which were delayed.

The public safety expenditures were over the budgeted amount due to overtime wages in the fire department being higher than anticipated.

**Capital Assets and Debt Administration**

During the year ended September 30, 2004, the total capital assets of the City increased by \$3,482,132. Additional detail relating to the asset additions follows:

The Hospital capital assets increased by \$597,000 of which \$351,424 was financed with additional debt.

**CITY OF STURGIS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Electric Utility System capital assets increased by \$1,254,000, which was all financed internally.

The Sewer Utility System capital assets increased by \$690,000, which was all financed internally.

The Water Utility System capital assets increased by \$117,000, which was all financed internally.

The EMS/Ambulance services capital assets increased by \$223,780 which was all financed with bank debt.

The Motor Vehicle and Equipment Fund capital assets increased by \$130,352 which was financed with built up reserves.

Governmental Fund capital assets increased by \$470,000 which was partially funded with capital grants and contributions of \$280,000 and the balance financed internally.

During the year ended September 30, 2004, the total debt obligations of the City increased by additional borrowings of \$775,204 and decreased by principal payments of \$1,211,268. Total debt obligations at September 30, 2004, amounted to \$14,197,118. Included in the additional debt borrowings was \$351,424 for Hospital equipment, \$223,750 for EMS/Ambulance service vehicles and equipment and \$200,000 for economic enhancement activities.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Sturgis is \$22,640,000 which is significantly in excess of the City's outstanding general obligation debt.

**Economic Factors and Next Year's Budgets and Rates**

The City's budget for next fiscal year reflects another decrease in State Shared Revenue. Current economic conditions in the State of Michigan have put statutory revenue sharing at risk of being reduced. The Commission has adopted a conservative budget wishing to retain current fund balance in all governmental funds.

Water and Sewer Utility System rates were increased for the upcoming fiscal year to offset projected operating cost increases. City management currently plans to contract for a Water and Sewer Utility System rate structure survey to determine if additional increases are necessary.

The economic position of the Hospital is closely tied to that of the local economy. Because of limited economic growth and increased demand for resources where reimbursement is limited by federal and state mandates, the Hospital continues to look at cost containment measures. However, the Board of Trustees approved an average increase of 3 percent in the charge structure for the upcoming fiscal year.

CITY OF STURGIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Controller's office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF STURGIS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2004**

Primary Government

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
<b>ASSETS</b>				
Cash and investments	\$ 5,078,211	\$ 12,894,295	\$17,972,506	\$ 153,255
Receivables, net	769,443	9,294,693	10,064,136	-
Receivables, long-term portion	414,810	1,626,672	2,041,482	-
Internal balances	1,513,145	(1,513,145)	-	-
Due from component units	85,000	-	85,000	-
Inventories, prepaid items and other assets	20,172	2,700,812	2,720,984	40,672
Restricted assets	-	1,866,982	1,866,982	-
Capital assets - net	<u>11,305,468</u>	<u>44,156,695</u>	<u>55,462,163</u>	<u>273,471</u>
Total assets	19,186,249	71,027,004	90,213,253	467,398
<b>LIABILITIES</b>				
Accounts payable	331,977	2,800,118	3,132,095	1,593
Accrued and other liabilities	105,168	2,357,137	2,462,305	2,759
Due to primary government	-	-	-	85,000
Deferred revenue	2,586,920	-	2,586,920	-
Debt obligations:				
Due within one year	67,116	1,114,073	1,181,189	-
Due in more than one year	823,076	12,192,853	13,015,929	-
Compensated absences	<u>788,510</u>	<u>1,028,584</u>	<u>1,817,094</u>	<u>-</u>
Total liabilities	<u>4,702,767</u>	<u>19,492,765</u>	<u>24,195,532</u>	<u>89,352</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10,415,276	30,849,769	41,265,045	273,471
Restricted:				
Debt service	-	1,866,982	1,866,982	-
Endowments	851,398	-	851,398	-
Other purposes	-	47,819	47,819	-
Unrestricted	<u>3,216,808</u>	<u>18,769,669</u>	<u>21,986,477</u>	<u>104,575</u>
Total net assets	<u>\$ 14,483,482</u>	<u>\$ 51,534,239</u>	<u>\$66,017,721</u>	<u>\$ 378,046</u>

See accompanying notes to the financial statements

**CITY OF STURGIS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 1,556,024	\$ 753,782	\$ -	\$ -
Public safety	3,732,000	137,377	54,082	-
Public works	1,983,577	-	841,198	243,958
Recreation and cultural	2,085,398	832,459	201,377	35,601
Unallocated	94,313	77,575	-	-
Interest on long-term debt	41,197	-	-	-
Total governmental activities	9,492,509	1,801,193	1,096,657	279,559
Business-type activities:				
Hospital	37,502,173	38,714,656	38,482	2,500,000
Electric	15,726,991	16,619,548	-	-
Sanitary sewer	1,950,871	1,431,194	-	-
Water	1,079,089	947,488	-	-
Other	741,358	400,104	88,127	-
Total business-type activities	57,000,482	58,112,990	126,609	2,500,000
Total primary government	<u>\$66,492,991</u>	<u>\$59,914,183</u>	<u>\$ 1,223,266</u>	<u>\$ 2,779,559</u>
Component units				
Downtown Development Authority	\$ 100,956	\$ 7,303	\$ 7,076	\$ -
Housing Development Corporation	119,731	46,471	80,847	-
Total component units	<u>\$ 220,687</u>	<u>\$ 53,774</u>	<u>\$ 87,923</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Payments in lieu of taxes				
Transfers				
Total general revenues and transfers				
CHANGE IN NET ASSETS				
NET ASSETS - BEGINNING OF YEAR				
NET ASSETS - END OF YEAR				

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (802,242)	\$ -	\$ (802,242)	\$ -
(3,540,541)	-	(3,540,541)	-
(898,421)	-	(898,421)	-
(1,015,961)	-	(1,015,961)	-
(16,738)	-	(16,738)	-
(41,197)	-	(41,197)	-
(6,315,100)	-	(6,315,100)	-
-	3,750,965	3,750,965	-
-	892,557	892,557	-
-	(519,677)	(519,677)	-
-	(131,601)	(131,601)	-
-	(253,127)	(253,127)	-
-	3,739,117	3,739,117	-
(6,315,100)	3,739,117	(2,575,983)	\$ -
		\$ (86,577)	
		<u>7,587</u>	
		(78,990)	
2,903,704	-	2,903,704	70,606
1,123,337	-	1,123,337	-
258,725	193,512	452,237	-
100,509	198,285	298,794	-
1,213,745	-	1,213,745	-
(55,000)	55,000	-	-
<u>5,545,020</u>	<u>446,797</u>	<u>5,991,817</u>	<u>70,606</u>
(770,080)	4,185,914	3,415,834	(8,384)
<u>15,253,562</u>	<u>47,348,325</u>	<u>62,601,887</u>	<u>386,430</u>
<u>\$ 14,483,482</u>	<u>\$ 51,534,239</u>	<u>\$66,017,721</u>	<u>\$ 378,046</u>

FUND FINANCIAL STATEMENTS

**CITY OF STURGIS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2004**

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,245,314	\$ -	\$ 720,801
Investments	-	-	7,561
Receivables			
Accounts	92,174	66,837	-
Property taxes	237,836	-	-
Special assessments	33,351	22,912	358,547
Interest	-	-	-
Due from other funds	1,594,203	-	-
Due from component unit	-	-	-
Due from other governmental units	-	273,598	33,907
Prepaid expenses	-	-	-
Inventory	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 4,202,878</u>	<u>\$ 363,347</u>	<u>\$ 1,120,816</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Accounts payable	\$ 96,690	\$ 38,230	\$ 56,149
Due to other funds	-	60,523	-
Accrued expenses	129,206	4,760	4,547
Deferred revenue	<u>2,514,890</u>	<u>22,912</u>	<u>358,547</u>
Total liabilities	2,740,786	126,425	419,243
<b>FUND BALANCE</b>			
Reserved for endowments	-	-	-
Unreserved, undesignated	<u>1,462,092</u>	<u>236,922</u>	<u>701,573</u>
Total fund balance	<u>1,462,092</u>	<u>236,922</u>	<u>701,573</u>
Total liabilities and fund balance	<u>\$ 4,202,878</u>	<u>\$ 363,347</u>	<u>\$ 1,120,816</u>

See accompanying notes to the financial statements

Other Governmental Funds	Total Governmental Funds
\$ 738,996	\$ 3,705,111
597,374	604,935
16,663	175,674
-	237,836
-	414,810
386	386
-	1,594,203
85,000	85,000
45,899	353,404
4,504	4,504
12,298	12,298
<u>\$ 1,501,120</u>	<u>\$ 7,188,161</u>

\$ 90,456	\$ 281,525
20,535	81,058
34,493	173,006
<u>105,381</u>	<u>3,001,730</u>
250,865	3,537,319
851,398	851,398
<u>398,857</u>	<u>2,799,444</u>
<u>1,250,255</u>	<u>3,650,842</u>
<u>\$ 1,501,120</u>	<u>\$ 7,188,161</u>

CITY OF STURGIS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
SEPTEMBER 30, 2004

Total governmental fund balances \$ 3,650,842

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and therefore are  
not reported in the funds.

Governmental capital assets	\$ 12,686,759	
Less accumulated depreciation	<u>(2,445,519)</u>	10,241,240

Because the focus of governmental funds is on  
short-term financing, some assets will not be  
available to pay current expenditures. Those  
assets are offset by deferred revenues in the  
governmental funds and, therefore, not included  
in fund balance.

Deferred special assessments	414,810
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Certain liabilities are not due and payable in  
the current period and therefore are not  
reported in the funds.

Notes payable	(328,396)
Compensated absences	(788,510)

Internal service funds are used by management  
to charge the costs of certain activities to  
individual funds. The assets and liabilities  
of the internal service funds are reported with  
governmental activities.

Net assets of the internal service funds	<u>1,293,496</u>
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Net assets of governmental activities	<u>\$ 14,483,482</u>
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See accompanying notes to the financial statements

**CITY OF STURGIS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2004**

	General Fund	Major Street Fund	Local Street Fund
<b>REVENUE</b>			
Taxes	\$ 3,790,297	\$ -	\$ 227,073
Special assessments	89,817	-	32,039
Licenses and permits	51,508	-	-
Federal grants	-	177,101	-
State grants	5,328	32,907	-
State shared revenue	1,107,657	600,038	208,253
Charges for services	40,833	-	-
Fines and forfeits	42,688	-	-
Interest income	228,944	-	4,632
Administrative reimbursement	791,544	-	-
Other	98,633	66,857	2,199
Total revenue	<u>6,247,249</u>	<u>876,903</u>	<u>474,196</u>
<b>EXPENDITURES</b>			
Legislative	37,506	-	-
General government	1,156,075	-	-
Public safety	3,353,761	-	-
Public works	385,504	1,010,373	624,146
Health and welfare	94,313	-	-
Recreation and cultural	156,738	-	-
Capital outlay	73,887	-	-
Debt services			
Principal	31,427	-	-
Interest	14,649	-	-
Total expenditures	<u>5,303,860</u>	<u>1,010,373</u>	<u>624,146</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	943,389	(133,470)	(149,950)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	-	-	70,000
Operating transfers out	(1,185,000)	(70,000)	-
Total other financing sources (uses)	<u>(1,185,000)</u>	<u>(70,000)</u>	<u>70,000</u>
<b>EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	(241,611)	(203,470)	(79,950)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>1,703,703</u>	<u>440,392</u>	<u>781,523</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,462,092</u>	<u>\$ 236,922</u>	<u>\$ 701,573</u>

See accompanying notes to the financial statements

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,017,370
-	121,856
48,790	100,298
-	177,101
35,601	73,836
15,680	1,931,628
931,324	972,157
91,090	133,778
23,303	256,879
-	791,544
151,844	319,533
<u>1,297,632</u>	<u>8,895,980</u>
-	37,506
314,373	1,470,448
129,668	3,483,429
-	2,020,023
-	94,313
2,000,058	2,156,796
36,909	110,796
-	31,427
-	14,649
<u>2,481,008</u>	<u>9,419,387</u>
(1,183,376)	(523,407)
1,152,845	1,222,845
<u>(22,845)</u>	<u>(1,277,845)</u>
<u>1,130,000</u>	<u>(55,000)</u>
(53,376)	(578,407)
<u>1,303,631</u>	<u>4,229,249</u>
<u>\$ 1,250,255</u>	<u>\$ 3,650,842</u>

CITY OF STURGIS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2004

Net change in fund balances - total governmental funds                      \$    (578,407)

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets is depreciated over their estimated useful lives.

Expenditures for capital assets	470,013
Depreciation expense	(312,465)

Revenues in the statement of activities that do not provide  
current resources are not reported as revenues in the  
funds, but rather are deferred to subsequent fiscal years.

Collections on special assessments	(2,134)
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Loan proceeds provide current financial resources to  
governmental funds in the period issued, but issuing debt  
increases long-term liabilities in the statement of net  
assets. Repayment of loan principal is an expenditure in  
the governmental funds, but the repayment reduces long-  
term liabilities in the statement of assets.

Proceeds from installment loan	-
Principal payments on debt obligations	31,427

Some expenses reported in the statement of activities do  
not require the use of current financial resources and  
therefore are not reported as expenditures in the funds.

Increase in the accrual for compensated absences	(226,510)
--	-----------

Internal service funds are used by management to charge  
the cost of certain services to individual governmental  
and business-type funds. The net revenue (expense) of  
the internal service funds are allocated to governmental  
and business-type activities.

Net change from internal service funds related to governmental activities	(152,004)
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Change in net assets of governmental activities	\$    (770,080)
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See accompanying notes to the financial statements

CITY OF STURGIS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2004

<u>ASSETS</u>	<u>Hospital Fund</u>	<u>Electric Fund</u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 2,561,687	\$ 678,174
Investments	3,053,438	5,077,104
Receivables		
Notes - Current portion	-	-
Accounts	4,454,264	1,976,405
Interest	-	44,740
Grants	-	-
Contribution	2,000,000	-
Inventory	-	529,104
Due from other funds	-	-
Advances due from other funds	-	99,173
Other current assets	<u>1,662,134</u>	<u>-</u>
Total current assets	13,731,523	8,404,700
 <b>NONCURRENT ASSETS</b>		
Unamortized bond costs	-	62,917
Restricted assets	-	1,866,982
Notes receivable	-	-
Special assessments	-	696,528
Advances due from other funds	-	709,140
Other assets	112,776	-
Capital assets, net of depreciation	<u>7,724,930</u>	<u>23,542,432</u>
Total noncurrent assets	<u>7,837,706</u>	<u>26,877,999</u>
Total assets	21,569,229	35,282,699

Continued on next page

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ -	\$ 171,248	\$ 977,663	\$ 4,388,772	\$ 998,176
-	-	-	8,130,542	144,970
-	-	87,753	87,753	-
207,615	164,852	330,891	7,134,027	-
-	-	2,218	46,958	3,098
-	-	25,000	25,000	-
-	-	-	2,000,000	-
84,902	47,535	-	661,541	4,814
-	-	-	-	369,865
-	-	30,000	129,173	-
-	-	-	1,662,134	-
292,517	383,635	1,453,525	24,265,900	1,520,923
-	-	-	62,917	-
-	-	-	1,866,982	-
-	-	422,247	422,247	-
293,389	214,508	-	1,204,425	-
-	-	87,200	796,340	-
-	-	200,000	312,776	-
8,471,557	3,760,276	201,402	43,700,597	1,520,326
8,764,946	3,974,784	910,849	48,366,284	1,520,326
9,057,463	4,358,419	2,364,374	72,632,184	3,041,249

CITY OF STURGIS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS - Continued  
 SEPTEMBER 30, 2004

	<u>Hospital Fund</u>	<u>Electric Fund</u>
<u>LIABILITIES</u>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 179,221	\$ 365,000
Accounts payable	1,555,183	1,126,774
Accrued expenses	1,994,871	295,212
Customer deposits	-	97,590
Due to other funds	-	404,998
Advances due to other funds	129,173	-
Cost report settlements	<u>900,000</u>	<u>-</u>
Total current liabilities	4,758,448	2,289,574
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	1,041,387	6,080,000
Advances due to other funds	<u>796,340</u>	<u>-</u>
Total noncurrent liabilities	<u>1,837,727</u>	<u>6,080,000</u>
Total liabilities	6,596,175	8,369,574
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,578,809	17,097,432
Restricted	47,819	1,866,982
Unrestricted	<u>9,346,426</u>	<u>7,948,711</u>
Total net assets	<u>\$ 14,973,054</u>	<u>\$ 26,913,125</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 270,000	\$ 170,000	\$ 76,675	\$ 1,060,896	\$ 87,508
45,735	16,797	14,007	2,758,496	92,074
11,526	5,109	11,472	2,318,190	1,803
-	300	-	97,890	-
1,138,722	15,000	324,290	1,883,010	-
-	-	-	129,173	-
-	-	-	900,000	-
1,465,983	207,206	426,444	9,147,655	181,385
3,750,000	780,000	452,587	12,103,974	616,344
-	-	-	796,340	-
3,750,000	780,000	452,587	12,900,314	616,344
5,215,983	987,206	879,031	22,047,969	797,729
4,451,557	2,810,276	(327,860)	29,610,214	816,474
-	-	-	1,914,801	-
(610,077)	560,937	1,813,203	19,059,200	1,427,046
<u>\$ 3,841,480</u>	<u>\$ 3,371,213</u>	<u>\$ 1,485,343</u>	<u>\$ 50,584,215</u>	<u>\$ 2,243,520</u>

CITY OF STURGIS  
RECONCILIATION OF NET ASSETS ON THE STATEMENT OF  
NET ASSETS FOR ENTERPRISE FUNDS TO NET ASSETS OF  
BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

Net assets - total enterprise funds \$ 50,584,215

Amounts reported for business-type activities  
in the statement of net assets are different  
because:

Internal service funds are used by management  
to charge the costs of certain services to  
individual governmental and business-type  
funds. The net revenue (expense) of the  
internal service funds are allocated to  
governmental and business-type activities.

Add - cumulative portion of internal service  
funds net operating profit attributed to  
business-type funds

950,024

Net assets of business-type activities

\$ 51,534,239

See accompanying notes to the financial statements

CITY OF STURGIS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES,  
 AND CHANGES IN NET ASSETS  
 YEAR ENDED SEPTEMBER 30, 2004

	Hospital Fund	Electric Fund
OPERATING REVENUE		
Charges for services	\$ 38,415,793	\$ 16,423,500
Federal grants	-	-
State grants	-	-
Interest revenue	-	-
Other	298,863	196,048
Total operating revenue	38,714,656	16,619,548
OPERATING EXPENSES		
Purchased power	-	9,295,375
Material, maintenance and other	23,127,764	1,977,334
General and administrative	13,405,540	1,232,023
Payments in lieu of taxes	-	1,026,996
Depreciation and amortization	858,004	1,763,157
Provision for loan losses	-	-
Total operating expenses	37,391,308	15,294,885
OPERATING INCOME (LOSS)	1,323,348	1,324,663
NONOPERATING REVENUE (EXPENSES)		
Investment income	76,347	93,887
Interest expense	(110,865)	(355,291)
Gain on sale of assets	-	-
Other	113,292	65,157
Total non-operating revenue (expenses)	78,774	(196,247)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,402,122	1,128,416
CAPITAL CONTRIBUTIONS	2,500,000	-
TRANSFERS IN	-	-
CHANGE IN NET ASSETS	3,902,122	1,128,416
NET ASSETS - BEGINNING OF YEAR	11,070,932	25,784,709
NET ASSETS - ENDING OF YEAR	\$ 14,973,054	\$ 26,913,125

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,430,765	\$ 934,327	\$ 382,449	\$57,586,834	\$ 2,219,196
-	-	65,000	65,000	-
-	-	23,127	23,127	-
-	-	17,655	17,655	-
1,194	13,161	-	509,266	110,822
1,431,959	947,488	488,231	58,201,882	2,330,018
-	-	-	9,295,375	-
761,314	387,869	323,807	26,578,088	1,780,128
316,558	273,094	182,291	15,409,506	439,452
103,068	74,604	-	1,204,668	-
643,968	273,189	22,378	3,560,696	316,573
-	-	200,000	200,000	-
1,824,908	1,008,756	728,476	56,248,333	2,536,153
(392,949)	(61,268)	(240,245)	1,953,549	(206,135)
-	-	18,170	188,404	8,287
(96,412)	(54,575)	(12,882)	(630,025)	(37,926)
-	-	-	-	-
5,809	18,498	-	202,756	-
(90,603)	(36,077)	5,288	(238,865)	(29,639)
(483,552)	(97,345)	(234,957)	1,714,684	(235,774)
-	-	-	2,500,000	-
-	-	55,000	55,000	-
(483,552)	(97,345)	(179,957)	4,269,684	(235,774)
4,325,032	3,468,558	1,665,300	46,314,531	2,479,294
<u>\$ 3,841,480</u>	<u>\$ 3,371,213</u>	<u>\$ 1,485,343</u>	<u>\$50,584,215</u>	<u>\$ 2,243,520</u>

CITY OF STURGIS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS OF ENTERPRISE FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2004

Changes in net assets - total enterprise funds \$ 4,269,684

Amounts reported for business-type activities  
in the statement of activities are different  
because:

Internal service funds are used by management  
to charge the costs of certain services to  
individual governmental and business-type  
funds. The net revenue (expense) of the  
internal service funds are allocated to  
governmental and business-type activities.

Add - net change from internal service  
funds related to enterprise funds (83,770)

Change in net assets of business-type activities \$ 4,185,914

See accompanying notes to the financial statements

CITY OF STURGIS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 YEAR ENDED SEPTEMBER 30, 2004

	Hospital Fund	Electric Fund
Cash flows from operating activities		
Receipts from customers and users	\$ 38,696,467	\$ 16,604,945
Receipts from operating grants	-	-
Net loans (made) collected	-	-
Receipts for internal services	-	-
Interest received on loans	-	-
Other operating revenue	298,863	196,048
Payments to employees and suppliers	<u>(36,649,854)</u>	<u>(14,152,307)</u>
Net cash provided by (used for) operating activities	2,345,476	2,648,686
Cash flows from non-capital financing activities		
Contributions and other receipts	46,919	72,809
Transfers in	<u>-</u>	<u>-</u>
Net cash provided by non-capital financing activities	46,919	72,809
Cash flows from capital and related financing activities		
Principal paid on debt	(135,751)	(472,927)
Interest paid on debt	(110,865)	(359,041)
Receipts from interfund advances	-	92,732
Payments against interfund advances	(125,532)	-
Customer deposits	-	14,050
Acquisition of capital assets	(932,370)	(1,254,465)
Proceeds from sale of capital assets	300	-
Receipts from capital grants/contributions	66,373	-
Proceeds from issuance of debt	<u>351,124</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	(886,721)	(1,979,651)
Cash flows from investing activities		
Interest received on investments	76,347	84,687
Purchase of investments	(2,386,496)	(148,557)
Proceeds from maturity of investments	851,740	-
Other	<u>(64,370)</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(1,522,779)</u>	<u>(63,870)</u>
Net increase (decrease) in cash	(17,105)	677,974
Cash - beginning of year	<u>2,578,792</u>	<u>200</u>
Cash - ending of year	<u>\$ 2,561,687</u>	<u>\$ 678,174</u>

See accompanying notes to the financial statements

Sanitary Sewer Fund	Water Fund	Non-Major Enterprise Funds	Total	Internal Service Funds
\$ 1,449,429	\$ 957,524	\$ 55,262	\$57,763,627	\$ 110,822
-	-	139,345	139,345	-
-	-	-	-	-
-	-	-	-	2,205,581
-	-	16,190	16,190	-
1,194	13,161	-	509,266	-
(654,114)	(814,890)	(167,651)	(52,438,816)	(2,226,061)
796,509	155,795	43,146	5,989,612	90,342
22,229	22,745	-	164,702	-
-	-	55,000	55,000	-
22,229	22,745	55,000	219,702	-
(265,000)	(165,000)	(54,518)	(1,093,196)	(86,346)
(96,412)	(54,575)	(12,604)	(633,497)	(37,926)
-	-	32,800	125,532	-
-	-	-	(125,532)	-
-	(100)	(213,719)	(199,769)	-
(690,139)	(117,488)	(223,780)	(3,218,242)	(130,352)
-	-	-	300	-
232,813	329,871	-	629,057	-
-	-	423,780	774,904	-
(818,738)	(7,292)	(48,041)	(3,740,443)	(254,624)
-	-	18,170	179,204	5,967
-	-	-	(2,535,053)	(123,066)
-	-	-	851,740	133,342
-	-	-	(64,370)	-
-	-	18,170	(1,568,479)	16,243
-	171,248	68,275	900,392	(148,039)
-	-	909,388	3,488,380	1,146,215
\$ -	\$ 171,248	\$ 977,663	\$ 4,388,772	\$ 998,176

CITY OF STURGIS  
 PROPRIETARY FUNDS  
 STATEMENT CASH FLOWS - Continued  
 YEAR ENDED SEPTEMBER 30, 2004

	<u>Hospital Fund</u>	<u>Electric Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 1,323,348	\$ 1,324,663
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization	858,004	1,763,157
Provision for bad debts	1,908,735	-
Provision for loan losses	-	-
Loss on disposal of assets	47,985	-
(Increase) decrease in:		
Accounts receivable	(1,778,061)	181,445
Loans receivable	-	-
Interest receivable	-	-
Grants receivable	-	-
Inventory	-	73,365
Due from other funds	-	-
Cost report settlements	-	-
Other current assets	11,274	-
Increase (decrease) in:		
Accounts payable	(248,214)	167,878
Accrued expenses	72,405	27,949
Due to other funds	-	(889,771)
Cost report settlements	<u>150,000</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 2,345,476</u>	<u>\$ 2,648,686</u>

See accompanying notes to the financial statements

<u>Sanitary Sewer Fund</u>	<u>Water Fund</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
\$ (392,949)	\$ (61,268)	\$ (240,245)	\$ 1,953,549	\$ (206,135)
643,968	273,189	22,378	3,560,696	316,573
-	-	-	1,908,735	-
-	-	200,000	200,000	-
-	-	-	47,985	-
18,664	23,197	(327,187)	(1,881,942)	34,740
-	-	-	-	-
-	-	(1,465)	(1,465)	-
-	-	51,218	51,218	-
(51,632)	9,239	-	30,972	(4,814)
-	-	-	-	(13,615)
-	-	-	-	-
-	-	-	11,274	-
(31,427)	(8,849)	3,834	(116,778)	(1,935)
9,198	3,801	10,323	123,676	649
600,687	(83,514)	324,290	(48,308)	(35,121)
-	-	-	150,000	-
<u>\$ 796,509</u>	<u>\$ 155,795</u>	<u>\$ 43,146</u>	<u>\$ 5,989,612</u>	<u>\$ 90,342</u>

CITY OF STURGIS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
SEPTEMBER 30, 2004

	Pension Trust Fund	Agency Fund	Combining Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,372,648	\$ 177,456	\$ 2,550,104
Investments	42,984,303	-	42,984,303
Accounts receivable	254,650	-	254,650
Dividends and interest receivable	206,580	-	206,580
Total assets	45,818,181	177,456	45,995,637
<u>LIABILITIES</u>			
Accounts payable	19,220	-	19,220
Due to other governmental units	-	86,472	86,472
Other liabilities	-	90,984	90,984
Total liabilities	19,220	177,456	196,676
NET ASSETS			
Held in trust for pension benefits	<u>\$ 45,798,961</u>	<u>\$ -</u>	<u>\$ 45,798,961</u>

See accompanying notes to the financial statements

CITY OF STURGIS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2004

ADDITIONS

Contributions:

Employer

\$ 1,456,352

Investment income:

Net appreciation (depreciation)

in fair value of investments

3,939,086

Interest and dividends

1,888,200

Total investment income

5,827,286

Total additions

7,283,638

DEDUCTIONS

Benefits

1,733,917

Administrative expense

296,412

Total deductions

2,030,329

Net increase

5,253,309

Net assets held in trust for pension benefits

Beginning of year

40,545,652

End of year

\$ 45,798,961

See accompanying notes to the financial statements

COMPONENT UNITS FINANCIAL STATEMENTS

CITY OF STURGIS  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

	<u>Downtown Development Authority</u>	<u>Sturgis Housing Development Corporation</u>	<u>Combined Totals</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 100,441	\$ 52,814	\$ 153,255
Other asset	-	40,672	40,672
Capital assets			
Other capital assets, net of depreciation	<u>273,471</u>	<u>-</u>	<u>273,471</u>
Total assets	373,912	93,486	467,398
<u>LIABILITIES</u>			
Accounts payable	1,593	-	1,593
Accrued expenses	1,249	-	1,249
Other liabilities	1,510	-	1,510
Due to primary government	<u>-</u>	<u>85,000</u>	<u>85,000</u>
Total liabilities	4,352	85,000	89,352
NET ASSETS			
Invested in capital assets	273,471	-	273,471
Unrestricted	<u>96,089</u>	<u>8,486</u>	<u>104,575</u>
Total net assets	<u>\$ 369,560</u>	<u>\$ 8,486</u>	<u>\$ 378,046</u>

See accompanying notes to the financial statements

CITY OF STURGIS  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2004

	Program Revenues		Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Downtown Development Authority	Sturgis Housing Development Corporation	Combining Totals
Downtown Development Authority-economic development	\$ 100,956	\$ 7,303	\$ 7,076	\$ (86,577)	-	\$ (86,577)
Housing Development Corporation	119,731	46,471	80,847	-	7,587	7,587
Total discretely presented component units	<u>\$ 220,687</u>	<u>\$ 53,774</u>	<u>\$ 87,923</u>	(86,577)	7,587	(78,990)
General revenues						
Property taxes				70,606	-	70,606
Change in net assets				(15,971)	7,587	(8,384)
Net assets - beginning of year				385,531	899	386,430
Net assets - end of year				<u>\$ 369,560</u>	<u>\$ 8,486</u>	<u>\$ 378,046</u>

See accompanying notes to the financial statements

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Sturgis conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

**Reporting Entity**

The City of Sturgis is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Sturgis operates under a Commission - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Sturgis Hospital is a short-term acute care facility providing in-patient, out-patient, and home health care services to the Sturgis, Michigan area. The Hospital is a component unit of the City of Sturgis. The Hospital's governing body is selected by the Mayor with City Commission approval. In addition, the Hospital's budget, rates, and charges are subject to approval by the City Commission. The Hospital Fund is included as a part of the primary government because it is not legally separate from the City.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Discretely Presented Component Units** - The component units' columns in the government-wide financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance.
- b. The Sturgis Housing Development Corporation was created for the purpose of the development of residential, commercial, and industrial real estate, including development in accordance with guidelines and financial assistance provided by the Michigan State Housing Development Authority. The City of Sturgis is the sole owner of the Corporation, with ultimate control and supervision.

**Basis of Accounting - Government-Wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**Basis of Accounting - Fund Financial Statements** - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- \* Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- \* Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- \* Any fund the City elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

The City reports the following major funds:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

**Special Revenue Funds**

**Major Street and Trunkline Fund** - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

**Local Street Fund** - To account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

**Enterprise Funds**

**Hospital Fund** - To account for user charges and for operating expenses and debt service of the City's patient care facility.

**Electric Fund** - To account for user charges and for operating expenses and debt service of the City's electric utility system.

**Water Fund** - To account for user charges and for operating expenses and debt service of the City's water system.

**Sewer Fund** - To account for user charges and for operating expenses and debt service of the City's sewer system.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

**Governmental Fund** - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition** - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

**Expenditure Recognition** - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the City:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Permanent Funds** - The permanent funds are used to account for the assets of legal trust agreements held by the City as trustee for which only the interest income on the principal may be spent.

**Proprietary Funds** - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the City:

**Enterprise Funds** - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**Internal Service Funds** - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Fiduciary Funds (Not Included in Government-Wide Financial Statements)** - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

**Agency Funds** - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Pension Trust Funds** - The pension trust funds are used to account for the assets held by the City as trustee for the employee retirement systems.

**Budgets and Budgetary Accounting** - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- \* Prior to May 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- \* Public hearings are conducted at the City hall to obtain public comments.
- \* Prior to May 20th the budget and annual appropriations act are legally adopted by the City Commission.
- \* Formal budget integration is employed as a management control device during the year for all budgetary funds.
- \* Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the City's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- \* Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Commission. Expenditures in the special revenue funds are classified by major functional category for informational purposes. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary. In 2004, the general fund and special revenue fund budgets were amended to reflect actual expenditures that were higher than originally budgeted.
- \* All budget appropriations lapse at the end of the year.
- \* Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

**Deposits and Investments** - Statutes authorize the primary government and component units to invest in the following:

- \* In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- \* In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- \* In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- \* In United States government or federal agency obligation repurchase agreements.
- \* In banker's acceptances of United States banks.
- \* In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- \* In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The City's pension trust fund is also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents".

In addition, certain City funds including the Pension Trust Fund, Cemetery Trust Fund, Hospital Trust Fund, Hospital Fund, Electric Fund, Workers' Compensation Self-Insurance Fund, and Employee Benefit Fund have investments which are separately held from those of other City funds. For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account. Investments with a maturity of greater than one year at the date of purchase are stated at fair value and all other investments are stated at cost or amortized cost.

**Receivables and Payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes levied on July 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund. The City is permitted by state law without voter approval to levy taxes up to \$11.909 per \$1,000 of state equalized valuation for general governmental purposes. The tax rate to finance City services for the year ended September 30, 2004, was \$10.82 per \$1,000 of taxable valuation. The 2003 taxable value of the City was \$226,430,080.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Inventories and Prepaid Items** - Inventories include materials, repair parts and supplies for various City operations and are valued at the lower of cost (first-in, first-out) or market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Restricted Cash and Cash Equivalents** - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Capital Assets and Depreciation** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Roads and sidewalks	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

GASB 34 requires major networks and major subsystems of infrastructure acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The City has capitalized the current year's infrastructure as required by GASB 34, and has reported the infrastructure in the statement of net assets. The City will retroactively capitalize the major infrastructure assets on or before September 30, 2007, as permitted by GASB 34.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Compensated Absences** - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

**Long-Term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Cash Overdrafts** - To facilitate cash management and to maximize interest income, the primary government and component units have pooled certain cash and investment accounts. Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds.

**Fund Equity** - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid expenditures and inventories as those items will be expended in subsequent years. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The City's deposits and investments are included on the balance sheet under the following classifications:

	Primary Government	Component Units	Total
Statement of Net Assets:			
Cash and investments	\$ 17,972,506	\$ 153,255	\$ 18,125,761
Restricted assets	1,866,982	-	1,866,982
Statement of Fiduciary			
Net Assets:			
Cash and equivalents	2,550,104	-	2,550,104
Investments	42,984,303	-	42,984,303
Total	<u>\$ 65,373,895</u>	<u>\$ 153,255</u>	<u>\$ 65,527,150</u>

**Deposits and Investments:**

Bank deposits (checking accounts, savings accounts, and CDs)	\$ 4,904,048
Investments in securities, mutual funds, annuity contract, and similar vehicles	60,616,107
Cash on hand	6,995
Total	<u>\$ 65,527,150</u>

**Deposits** - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$9,003,925. Of that amount, approximately \$922,496 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to component unit deposits, if any, is not determinable.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

**Investments** - Investments of the primary government and component units are categorized below to give an indication of the level of risk assumed by the entity at year-end:

- \* Category 1 includes investments that are insured or registered, or for which the securities are held by the entity or its agent in the entity's name.
- \* Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or agent in the entity's name.
- \* Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name.

	1	Category 2	3	Carrying Amount
Corporate bonds	\$ -	\$ 6,284,804	\$ -	\$ 6,284,804
Common stock	-	25,416,055	-	25,416,055
US gov. securities	-	16,575,890	-	16,575,890
Annuity contract	-	2,046,494	-	2,046,494
	<u>\$ -</u>	<u>\$50,323,243</u>	<u>\$ -</u>	<u>50,323,243</u>
Mutual and cash management funds (uncategorized as to risk)				<u>10,292,864</u>
Total investments				<u>\$60,616,107</u>

The composition of pension trust fund investments at fair value at September 30, 2004 follows:

Corporate bonds	\$ 6,278,534
Common stocks	25,416,055
US gov. securities	<u>11,289,714</u>
Total investments	<u>\$42,984,303</u>

Investments of the City, including the pension investment portfolio, utilizes no derivative instruments.

# CITY OF STURGIS

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004

### NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 35 percent special assessments, 20.1 percent property tax, 29.8 percent due from other governments, 14.8 percent accounts receivable, and 0.2 percent accrued interest. Business-type activities receivables are 65.3 percent due from customers, 18.3 percent contribution receivable, 4.7 percent loans, 0.2 percent grants receivable, 11 percent special assessments, and 0.4 percent accrued interest.

Accounts receivable of the Hospital Fund are reported net of an allowance for uncollectible accounts of \$1,250,000 and net of an allowance for contractual adjustments and interim payment advances of \$4,468,000. The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows: Medicare - 29%, Medicaid - 12%, Blue Cross - 14%, Other commercial payors - 26%, Patients - self pay - 19%.

Accounts receivable of the Electric Fund are reported net of an allowance for uncollectible accounts of \$74,000.

Accounts receivable of the EMS/Ambulance Fund are reported net of an allowance for uncollectible accounts of \$152,859.

Loans receivable of the Economic Development Fund are reported net of an allowance for uncollectible loans of \$650,000. During the fiscal year ended September 30, 2004, the provision for loan losses amounted to \$200,000.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes levied and collected for next fiscal years operation			
(general fund)	\$ -	\$2,479,781	\$2,479,781
Special assessments not yet due			
(General, major and local street funds)	414,002	-	414,002
Customer deposits for future services/events			
(general and special revenue funds)	-	107,947	107,947
	<u>\$ 414,002</u>	<u>\$2,587,728</u>	<u>\$3,001,730</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at September 30, 2004:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General	\$ 1,594,203	Major streets Parks and Recreation Electric Sewer EMS/Ambulance	\$ 60,523  20,535 65,133 1,123,722 324,290
	<u>1,594,203</u>		<u>1,594,203</u>
Workers' Compensation Self-Insurance	369,865	Electric Sewer Water	339,865 15,000 15,000
	<u>369,865</u>		<u>369,865</u>
Totals	<u>\$1,964,068</u>		<u>\$1,964,068</u>
<u>Advances from/to other funds</u>			
Electric Grobbiser Building	\$ 808,313 <u>117,200</u>	Hospital Hospital	\$ 808,313 <u>117,200</u>
Totals	<u>\$ 925,513</u>		<u>\$ 925,513</u>
Total Primary Government	<u>\$2,889,581</u>		<u>\$2,889,581</u>
<u>Due from/to Component Units</u>			
Primary government - Housing Department	<u>85,000</u>	Component Unit - Housing Development Corporation	<u>85,000</u>
Total Reporting Entity	<u>\$2,974,581</u>		<u>\$2,974,581</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued**

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of Internal Service Funds.

Transfers consisted of the following for the year ended September 30, 2004:

Fund	Transfers Out	Fund	Transfers In
General	\$ 1,185,000	Building Department	\$ 30,000
		Housing Department	55,000
		Cemetery	150,000
		Drug Enforcement	25,000
		Parks and Recreation	300,000
		Civic Auditorium	220,000
		Library	330,000
		Doyle Comm. Center	20,000
		Economic Enhancement	55,000
	<u>1,185,000</u>		<u>1,185,000</u>
Major Street	<u>70,000</u>	Local Street	<u>70,000</u>
Cemetery Trust	<u>22,845</u>	Cemetery	<u>22,845</u>
Total Primary Government	<u>\$ 1,277,845</u>		<u>\$ 1,277,845</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2004, was as follows:

	Balance October 1, 2003	Additions	Disposals	Balance September 30, 2004
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 566,260	\$ -	\$ -	\$ 566,260
Capital assets, being depreciated:				
Infrastructure	-	364,761	-	364,761
Land improvements	3,587,179	95,159	-	3,682,338
Buildings and improvements	6,908,797	-	-	6,908,797
Machinery and equipment	1,262,595	45,172	-	1,307,767
Vehicles	2,288,464	56,167	-	2,344,631
Office furniture and equipment	467,580	-	-	467,580
Subtotal	14,514,615	561,259	-	15,075,874
Accumulated depreciation				
Infrastructure	-	12,160	-	12,160
Land improvements	438,695	54,698	-	493,393
Buildings and improvements	872,074	93,370	-	965,444
Machinery and equipment	908,132	142,179	-	1,050,311
Vehicles	1,250,674	184,901	-	1,435,575
Office furniture and equipment	333,025	46,758	-	379,783
Subtotal	3,802,600	534,066	-	4,336,666
Net capital assets being depreciated	10,712,015			10,739,208
Net capital assets	<u>\$11,278,275</u>			<u>\$11,305,468</u>

## CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

## NOTE 5 - CAPITAL ASSETS - Continued

	Balance October 1, 2003	Additions	Disposals/ Transfers	Balance Sept. 30, 2004
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 457,970	\$ -	\$ -	\$ 457,970
Construction in progress	<u>185,182</u>	<u>267,119</u>	<u>33,539</u>	<u>418,762</u>
Subtotal	643,152	267,119	33,539	876,732
Capital assets, being depreciated:				
Land improvements	837,621	-	-	837,621
Buildings, improvements and system	84,300,814	2,096,936	14,208	86,383,542
Machinery and equipment	1,676,505	67,882	-	1,744,387
Vehicles	980,770	221,055	-	1,201,825
Office furniture and equipment	<u>14,415,874</u>	<u>604,356</u>	<u>1,080,735</u>	<u>13,939,495</u>
Subtotal	102,211,584	2,990,229	1,094,943	104,106,870
Accumulated depreciation				
Land improvements	436,424	13,178	-	449,602
Buildings, improvements and system	43,923,126	2,899,257	14,208	46,808,175
Machinery and equipment	873,507	164,776	-	1,038,283
Vehicles	536,003	98,942	-	634,945
Office furniture and equipment	<u>12,485,711</u>	<u>476,182</u>	<u>1,065,991</u>	<u>11,895,902</u>
Subtotal	<u>58,254,771</u>	<u>3,652,335</u>	<u>1,080,199</u>	<u>60,826,907</u>
Net capital assets being depreciated	<u>43,956,813</u>			<u>43,279,963</u>
Net capital assets	<u>\$44,599,965</u>			<u>\$44,156,695</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 5 - CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 85,684	Hospital	\$ 854,671
Public safety	208,200	Electric	1,825,631
Public works	96,152	Sanitary Sewer	666,786
Recreation and cultural	144,030	Water	282,869
		EMS/Ambulance	22,378
Total	<u>\$ 534,066</u>	Total	<u>\$ 3,652,335</u>

Discretely Presented Component Units

	Balance October 1, 2003	Additions	Disposals	Balance September 30, 2004
Capital assets, being depreciated				
Buildings and improvements	\$ 302,700	\$ -	\$ -	\$ 302,700
Accumulated depreciation				
Buildings and improvements	14,094	15,135	-	29,229
Net capital assets being depreciated	<u>\$ 288,606</u>	<u>\$ 15,135</u>	<u>\$ -</u>	<u>\$ 273,471</u>

Depreciation was charged to programs of the component units as follows:

Downtown Development Authority	<u>\$ 15,135</u>
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**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

**NOTE 6 - LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Current Portion
<b>Governmental Activities</b>					
Loans payable	\$ 956,967	\$ -	\$ 66,775	\$ 890,192	\$ 67,116
Compensated absences	562,000	226,510	-	788,510	-
	1,518,967	226,510	66,775	1,678,702	67,116
<b>Business-Type Activities</b>					
Revenue bonds	12,355,000	-	810,000	11,545,000	835,000
Loans payable	1,099,625	747,779	266,445	1,580,959	180,601
Capital leases	221,590	27,425	68,048	180,967	98,472
Compensated absences	951,677	76,907	-	1,028,584	-
	14,627,892	852,111	1,144,493	14,335,510	1,114,073
<b>Total Primary Government Long-Term Debt</b>	<b>\$16,146,859</b>	<b>\$ 1,078,621</b>	<b>\$ 1,211,268</b>	<b>\$16,014,212</b>	<b>\$ 1,181,189</b>

Long-term debt payables at September 30, 2004, consisted of the following individual issues:

**Governmental Activities**

Note payable to Century Bank and Trust in the amount of \$648,000, monthly payment of \$5,089 including interest at 4.895%, final payment due February, 2017, secured by Fire Truck with a net book value of \$529,200

\$ 561,796

Note payable to Century Bank and Trust in the amount of \$375,000, monthly payment of \$3,840 including interest at 4.24%, final payment due March 15, 2013, secured by certain building

328,396

Long-term compensated absences

788,510

**Total Governmental Activities  
Long-Term Liabilities**

\$ 1,678,702

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 6 - LONG-TERM DEBT - Continued

Business-Type Activities

\$8,000,000 1999 Electric revenue bonds, payable in semi-annual installments ranging from \$150,000 to \$660,000, plus interest at 4.0% to 5.8%, final payment due May, 2017	\$ 6,445,000
\$2,290,000 1994 Water Supply and Distribution system revenue bonds, payable in semi-annual installments ranging from \$140,000 to \$210,000, plus interest at 3.3% to 5.5%, final payment due April, 2009	950,000
\$5,745,000 1996 Sanitary Sewer System revenue bonds, payable in semi-annual installments ranging from \$240,000 to \$355,000, plus interest at 2.25%, final payment due September 30, 2017	4,020,000
\$360,000 1993 Grobhiser Building revenue sharing bonds, payable in semi-annual installments ranging from \$25,000 to \$35,000, plus interest at 2.9% to 5.9%, final payment due May, 2008	130,000
Note payable to Citizens bank in the amount of \$261,745, monthly payment of \$4,843 including interest at 4.19%, final payment due May, 2007, secured by two utility vehicles with a net book value of \$186,404	142,056
Note payable to Citizens Bank in the amount of \$49,661, monthly payment of \$885 including interest at 2.68%, final payment due March 12, 2009, secured by ambulance with a net book value of \$44,695	44,204
Note payable to Citizens Bank in the amount of \$147,322, monthly payment of \$2,626 including interest at 2.68%, final payment due March 11, 2009, secured by (2) ambulances with a net book value of \$132,590	131,133
Note payable to Citizens Bank in the amount of \$26,797, monthly payment of \$775 including interest at 2.67%, final payment due March 11, 2007, secured by (2) defibrillators with a net book value of \$24,118	23,925

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 6 - LONG-TERM DEBT - Continued

Note payable to Michigan Economic Development Corporation, non-interest bearing, no specific repayment terms	200,000
Memorial Health System note bears interest at prime rate as of January 1 of the Hospital's fiscal year or 4.50%, payable in monthly installments of \$4,333 plus interest. The note is secured by certain buildings and is due in full in January, 2009.	481,000
Century Bank and Trust building loan bears interest at 5.15%, payable in monthly installments of \$1,843, including interest, secured by certain buildings and due in full in August, 2018.	219,449
Century Bank and Trust equipment loan bears interest at 4.5%, payable in monthly installments of \$177, including interest, secured by certain equipment and due in full in June, 2013.	15,193
Century Bank and Trust R & F loan bears interest at 4.2%, payable in monthly installments of \$2,459, including interest, secured by certain equipment and due in full in June 2019	323,999
GE Financial Services - Capital lease obligation with monthly payments of \$2,222 plus imputed interest of 7.08% for the year ended September 30, 2004, collateralized by equipment	27,425
GE Financial Healthcare - Capital lease obligation with monthly payments of \$883 including imputed interest of 7.62% for the year ended September 30, 2004, collateralized by equipment.	31,774
Sturgis Bank and Trust - Capital lease obligation with monthly payments of \$5,655 plus imputed interest of 4.95% for the year ended September 30, 2004, collateralized by equipment.	121,768
Long-Term Compensated Absences	<u>1,028,584</u>
Total Business-Type Activities Long-Term Liabilities	<u>14,335,510</u>
Total Primary Government Long-Term Debt	<u>\$16,014,212</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of September 30, 2004 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 67,116	\$ 40,032	\$ 107,148
2006	70,109	37,039	107,148
2007	73,383	33,765	107,148
2008	76,812	30,336	107,148
2009	80,404	26,744	107,148
2010-2014	391,155	75,465	466,620
2015-2019	<u>131,213</u>	<u>16,368</u>	<u>147,581</u>
Total	<u>\$ 890,192</u>	<u>\$ 259,749</u>	<u>\$ 1,149,941</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,114,073	\$ 586,728	\$ 1,700,801
2006	1,120,578	569,826	1,690,404
2007	1,077,912	524,089	1,602,001
2008	1,068,609	462,718	1,531,327
2009	1,048,962	392,513	1,441,475
2010-2014	4,546,588	1,318,469	5,865,057
2015-2019	3,130,204	282,289	3,412,493
Unscheduled	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total	<u>\$ 13,306,926</u>	<u>\$ 4,136,632</u>	<u>\$ 17,443,558</u>

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 7 - ADVANCES DUE TO OTHER FUNDS

At September 30, 2004, the Sturgis Hospital Fund reflected advances due to the following funds:

Electric Fund

Payable in monthly installments of \$2,247, plus interest at 6%; due in full September 30, 2023.	\$ 512,417
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Payable in monthly installments of \$7,333, including interest at 6%, due in full June, 2008.	<u>295,896</u>
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Total Electric Fund	808,313
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Grobhiser Building Fund

Payable in monthly installments of \$6,402, including interest at rates of 5.5% to 5.9%, due in full April, 2008.	<u>117,200</u>
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Total Advances Due to Other Funds	<u>\$ 925,513</u>
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NOTE 8 - NOTES RECEIVABLE

At September 30, 2004, the Economic Development Fund reflected the following notes receivable:

Note receivable from Grav-I-Flo Company collectible in monthly installments of \$1,833 plus interest at 6.5%, final collection due August, 2009.	\$ 110,000
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Note receivable from Sturgis Machining, Inc. currently in default	650,000
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Note receivable from Vulcan Industries, Inc. collectible in monthly installments of \$5,480 plus interest at the Wall Street Journal prime rate, final collection due September, 2010	<u>400,000</u>
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Subtotal	1,160,000
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Less: Allowance for uncollectible note from Sturgis Machining, Inc.	<u>(650,000)</u>
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Total notes receivable	<u>\$ 510,000</u>
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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for most risks of loss to which it is exposed and to cover the majority of the health care benefits provided to City employees. The City management believes it is more economical to manage its risk of loss for claims arising from workers' compensation for all employees internally and, accordingly, has set aside assets for claim settlements in an internal service fund. The Hospital has purchased commercial insurance for malpractice and general liability claims, and participates with the City for claims relating to workers' compensation. The Hospital is self-insured for employee medical benefit claims.

During the year ended September 30, 2004, a total of \$161,794 was incurred in workers' compensation claims and related administrative costs. An excess coverage insurance policy covers individual claims in excess of \$250,000 and aggregate claims exceeding \$500,000 to a limit of \$5,000,000.

Changes in the Workers' Compensation Self-Insurance Fund claims liability for the year ended September 30, 2004, was as follows:

Claims liability October 1	\$ 20,000
Current year claims and changes in estimates	161,794
Claim payments	<u>(161,794)</u>
Claims liability September 30	<u>\$ 20,000</u>

For all eligible City employees, the City purchases commercial health care insurance. Maximum insurance coverage is \$5,000,000 annually for specific claims. Health care insurance premiums are accounted for in the Employee Benefit Fund. The City is self-insured for some minor employee medical benefits which totaled \$152,156 in 2004 and are reported in the Employee Benefit Fund.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 9 - RISK MANAGEMENT - Continued

Changes in the Employee Benefit Fund self-insured claims liability for the year ended September 30, 2004, was as follows:

Claims liability October 1	\$ 50,000
Current year claims and changes in estimates	152,156
Claim payments	<u>(152,156)</u>
Claims liability September 30	<u>\$ 50,000</u>

The Hospital is self-insured for employee medical benefit claims. Changes in the estimated liability, which was included in the Hospital Fund accrued expenses, for the year ended September 30, 2004, was as follows:

Claims liability October 1	\$ 400,000
Current year claims and changes in estimates	4,388,710
Claim payments	<u>(4,388,710)</u>
Claims liability September 30	<u>\$ 400,000</u>

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible towards the costs of litigation or settling any asserted claims. In addition, the Hospital (the City of Sturgis) bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

**CITY OF STURGIS**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004**

**NOTE 10 - DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The City maintains a single-employer defined benefit pension plan (City of Sturgis Employers' Retirement System) which covers all employees of the City of Sturgis, including Hospital employees, who normally work 1000 hours or more a year. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 171 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 471 current active employees. The plan does not issue a separate financial report.

**Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings. There are no employee contributions.

**Annual Pension Cost**

For the year ended September 30, 2004, the City's annual pension cost of \$1,456,352 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7% investment rate of return, (b) projected salary increases of 4.5 to 17.5 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five year period. The assets as of the valuation date exceed the accrued liabilities for all divisions. Due to this excess, a credit has been taken against the normal cost. The credit amortizes the over funding using a rolling 11-year period. The changes in liability due to recent and future benefit and assumption changes are funded over a 22-year amortization period.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued

BRIEF SUMMARY OF BENEFIT PROVISIONS  
(DECEMBER 31, 2003)

Eligibility	Amount
REGULAR RETIREMENT (no reduction factor for age)	
General and Electrical Union: Any age with 25 years of service	Total service multiplied by:  General, - the sum of (a) 1.2% of the first \$4,200 of final average compensation (FAC) and (b) 1.7% of FAC in excess of \$4,200. Electrical - 1.8% of FAC Hospital - 1.8% of FAC
General, Electrical and Hospital: Age 60 with 10 year of service or 65 with 5 years of service.	
Police, Fire and Dispatchers: Any age with 25 years of service, or age 55 with 10 years of service, or at age 60 with 5 years.	Dispatchers - 2.5% of FAC until age 62, then same as General.  Police and Fire 2.5% of FAC.

Type of final average compensation - Fire: Highest 3 consecutive years out of last five. Others: Highest 5 consecutive years out of last 10

DEFERRED RETIREMENT

Electrical, Non-Union and Hospital: 5 years of service.	Computed as a regular retirement But based upon service and final average compensation at termination date.
Other: 10 years of service.	
Benefit begins at normal retirement age.	

NON-DUTY DEATH BEFORE RETIREMENT

10 years of service.	Computed as a regular retirement but actuarially reduced in accordance with a 100% joint and survivor election.
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

## DUTY DEATH BEFORE RETIREMENT

## NON-DUTY DISABILITY RETIREMENT

DUTY DISABILITY RETIREMENT

## MEMBER CONTRIBUTIONS

### POST RETIREMENT ADJUSTMENT

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CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 10 - DEFINED BENEFIT PENSION PLAN - Continued**

The following is three-year trend information for the City of Sturgis Employees' Retirement System:

	Actuarial Valuation December 31,		
	2003	2002	2001
Annual Pension Cost (APC) \$	1,101,164	\$ 720,630	\$ 733,760
Percentage of APC contributed	93.90%	88.10%	94.10%
Actuarial value of assets	45,375,025	45,002,373	44,778,401
Actuarial accrued liability (entry age)	45,635,562	41,198,313	38,727,695
(Under) Overfunded actuarial accrued liability	(260,537)	3,804,060	6,050,706
Funded ratio	99.40%	109.20%	115.60%
Covered payroll	19,158,737	17,553,599	17,470,709
(Under) Overfunded actuarial accrued liability as a percentage of covered payroll	(1.40%)	21.70%	34.60%

GASB 25 required supplementary information is present after the Notes to the Financial Statements. The following information relates to the GASB 25 disclosure:

Actuarial cost method - individual entry age normal cost  
Amortization method - level percent of payroll, open and closed periods

Remaining amortization period as of December 31, 2003:

- Liabilities created by plan, assumption, or method changes-19 years closed

- All other liabilities - 11 years open

Asset valuation method - market value with 5 year smoothing

Principal actuarial assumptions (last revised for the 12/31/97 valuation):

- Net investment return\* - 7.0%
- Projected salary increases\* - 4.5% to 17.5%
- Cost of living adjustments - none

\* includes pay inflation at 4.5%

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 11 - POST-EMPLOYMENT HEALTH CARE BENEFITS**

The City provides certain health care benefits for retirees, as per the union contracts and the requirements of a local ordinance. Substantially all of the City's full-time employees may become eligible for those benefits if they retire from the City and receive a pension. The City covers the majority of the cost by purchasing health care insurance. Currently, 64 retirees are eligible for and receive benefits. The cost of retiree health insurance coverage is recognized as an expense of the Employee Benefits Fund. For the fiscal year ended September 30, 2004, those costs totaled approximately \$425,000.

The Hospital provides certain health care benefits for retirees. Substantially all of the Hospital's employees may become eligible for those benefits if they reach normal retirement age while working for the Hospital. Currently, 71 retirees meet those eligibility requirements. The Hospital is self-insured for retirees' medical benefit claims. The hospital's net cost for providing retirees' health care benefits was \$433,477 (after retirees' contributions of \$50,406) for the year ended September 30, 2004.

**NOTE 12 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis.

During the year ended September 30, 2004, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Budget</u>	<u>Actual</u>
Special Revenue		
Parks and Recreation Fund	\$ 410,767	\$ 439,471

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**NOTE 13 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts if any, to be immaterial.

The Hospital has agreements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs to provide reimbursement to the Hospital at amounts different from its established rates. Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect of the accompanying financial statements.

The City is a defendant in various lawsuits. Although, the outcome of these lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

The Hospital (The City of Sturgis) has been named a defendant in several malpractice suits. At this time, it is premature to evaluate the likely outcomes, amount of settlements, if any, or whether they could exceed the insurance coverage. Management intends to vigorously defend these suits and does not expect any unfavorable impacts. Accordingly, an accrual has been made in the amount of \$25,000 in these financial statements for the deductible potentially payable by the Hospital on these malpractice suits.

**NOTE 14 - SUBSEQUENT EVENTS**

On September 8, 2004 the Sturgis City Commission adopted Articles of Incorporation for the formation of the Sturgis Building Authority. On September 28, 2004 the City Commission authorized the issuance of \$10,000,000 of limited tax general obligation bonds by the Sturgis Building Authority for an addition and improvements to Sturgis Hospital. The actual closing date for the sale of those bonds was dated December 29, 2004. It is anticipated that an additional \$900,000 in bonds will be sold in the calendar year 2005. The total budgeted project cost of \$15,000,000, is funded with those bonds, Hospital Fund investments and the balance through donations. Debt repayment will use Hospital Fund operating income as its main funding source.

CITY OF STURGIS

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

NOTE 14 - SUBSEQUENT EVENTS - Continued

Over the last several years the City of Sturgis has been planning a new home for its Department of Public Works. Additionally those plans include the centralization of other city operations including Water distribution maintenance operations, Sewer system maintenance, Engineering, Electrical Department management and system maintenance, and Park maintenance operations. City management has located a facility that can house these operations and whose enhancement would be an asset to the City. While the sale is still pending the working out of some environmental liability issues, the deal has been agreed to in principle. The purchase price is approximately \$455,000 for a 30 acre plot with a 100,000 square foot existing facility. Sale closing should take place by June 30, 2005.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF STURGIS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**YEAR ENDED SEPTEMBER 30, 2004**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<b>REVENUE</b>				
Taxes	\$ 3,767,249	\$3,767,249	\$3,790,297	\$ 23,048
Special assessments	89,270	89,270	89,817	547
Licenses and permits	55,500	55,500	51,508	(3,992)
State grants	3,600	3,600	5,328	1,728
State shared revenue	1,049,426	1,049,426	1,107,657	58,231
Charges for services	30,500	30,500	40,833	10,333
Fines and forfeits	37,500	37,500	42,688	5,188
Interest income	360,500	360,500	228,944	(131,556)
Administrative reimbursement	824,362	824,362	791,544	(32,818)
Other	80,000	80,000	98,633	18,633
Total revenue	<u>6,297,907</u>	<u>6,297,907</u>	<u>6,247,249</u>	<u>(50,658)</u>
<b>EXPENDITURES</b>				
Legislative	70,000	50,000	37,506	12,494
General government	1,157,810	1,170,919	1,156,075	14,844
Public safety	3,075,702	3,310,701	3,353,761	(43,060)
Public works	385,034	370,034	385,504	(15,470)
Health and welfare	102,000	102,000	94,313	7,687
Recreation and cultural	178,938	178,938	156,738	22,200
Capital outlay	47,009	161,009	73,887	87,122
Debt services				
Principal	31,427	31,427	31,427	-
Interest	14,649	14,649	14,649	-
Total expenditures	<u>5,062,569</u>	<u>5,389,677</u>	<u>5,303,860</u>	<u>85,817</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>1,235,338</b>	<b>908,230</b>	<b>943,389</b>	<b>35,159</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	<u>(1,185,000)</u>	<u>(1,185,000)</u>	<u>(1,185,000)</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>50,338</b>	<b>(276,770)</b>	<b>(241,611)</b>	<b>35,159</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>1,703,703</u>	<u>1,703,703</u>	<u>1,703,703</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 1,754,041</u>	<u>\$1,426,933</u>	<u>\$1,462,092</u>	<u>\$ 35,159</u>

CITY OF STURGIS  
REQUIRED SUPPLEMENTAL INFORMATION  
MAJOR STREET FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
State grants	\$ 45,000	\$ 45,000	\$ 32,907	\$ (12,093)
Federal grants	-	191,433	177,101	(14,332)
State shared revenue	560,690	560,690	600,038	39,348
Other	<u>4,000</u>	<u>70,821</u>	<u>66,857</u>	<u>(3,964)</u>
Total revenue	609,690	867,944	876,903	8,959
EXPENDITURES				
Public works	<u>716,122</u>	<u>1,043,592</u>	<u>1,010,373</u>	<u>33,219</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(106,432)	(175,648)	(133,470)	42,178
OTHER FINANCING (USES)				
Operating transfers out	<u>(70,000)</u>	<u>(70,000)</u>	<u>(70,000)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(176,432)	(245,648)	(203,470)	42,178
FUND BALANCE - BEGINNING OF YEAR	<u>440,392</u>	<u>440,392</u>	<u>440,392</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 263,960</u>	<u>\$ 194,744</u>	<u>\$ 236,922</u>	<u>\$ 42,178</u>

CITY OF STURGIS  
REQUIRED SUPPLEMENTAL INFORMATION  
LOCAL STREET FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED SEPTEMBER 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Taxes	\$ 235,000	\$ 235,000	\$ 227,073	\$ (7,927)
Special assessments	15,000	15,000	32,039	17,039
State shared revenue	204,259	204,259	208,253	3,994
Interest income	8,000	8,000	4,632	(3,368)
Other	<u>-</u>	<u>-</u>	<u>2,199</u>	<u>2,199</u>
Total revenue	462,259	462,259	474,196	11,937
EXPENDITURES				
Public works	<u>677,162</u>	<u>677,162</u>	<u>624,146</u>	<u>53,016</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(214,903)	(214,903)	(149,950)	64,953
OTHER FINANCING SOURCES				
Operating transfers in	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(144,903)	(144,903)	(79,950)	64,953
FUND BALANCE - BEGINNING OF YEAR	<u>781,523</u>	<u>781,523</u>	<u>781,523</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 636,620</u>	<u>\$ 636,620</u>	<u>\$ 701,573</u>	<u>\$ 64,953</u>

**CITY OF STURGIS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**EMPLOYEE RETIREMENT SYSTEM**

Schedule of Funding Progress  
(Dollars represented in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/94	\$25,705	\$ 24,273	\$ (1,432)	105.9%	\$10,621	-13.5%
12/31/95*	29,121	26,133	(2,988)	111.4%	11,237	-26.6%
12/31/96*	32,663	28,121	(4,542)	116.2%	13,114	-34.6%
12/31/97#	35,079	29,451	(5,627)	119.1%	13,686	-41.1%
12/31/98	37,873	30,846	(7,026)	122.8%	15,422	-45.6%
12/31/99	40,865	33,326	(7,539)	122.6%	16,648	-45.3%
12/31/00	43,131	34,925	(8,207)	123.5%	16,590	-49.5%
12/31/01	44,778	38,728	(6,051)	115.6%	17,471	-34.6%
12/31/02	45,002	41,198	(3,804)	109.2%	17,554	-21.7%
12/31/03#	45,375	45,636	261	99.4%	19,158	1.4%

\* plan amended      # certain assumptions revised

Schedule of Employer Contributions

<u>Year ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1994	\$1,093,936	92.2%
1995	1,100,376	103.6%
1996	1,206,595	88.6%
1997	1,099,179	103.6%
1998	1,037,458	96.6%
1999	770,526	97.8%
2000	713,005	107.6%
2001	733,760	94.1%
2002	720,630	88.1%
2003	1,101,164	93.9%

For information regarding contribution percentage rates, assumptions, amortization method, etc., see Note 10 on pages 56, 57, 58, and 59.

OTHER SUPPLEMENTAL INFORMATION

**CITY OF STURGIS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**SEPTEMBER 30, 2004**

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 459,601	\$ 279,395	\$ 738,996
Investments	-	597,374	597,374
Receivables			
Accounts	16,663	-	16,663
Special assessments	-	-	-
Interest	330	56	386
Due from other funds	-	-	-
Due from component unit	85,000	-	85,000
Due from other governmental units	45,899	-	45,899
Prepaid expenses	4,504	-	4,504
Inventory	12,298	-	12,298
	<u>624,295</u>	<u>876,825</u>	<u>1,501,120</u>
Total assets	\$	\$	\$
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 90,456	\$ -	\$ 90,456
Due to other funds	20,535	-	20,535
Accrued expenses	34,493	-	34,493
Deferred revenue	105,381	-	105,381
	<u>250,865</u>	<u>-</u>	<u>250,865</u>
Total liabilities			
<b>Fund Balance</b>			
Reserved for endowments	-	851,398	851,398
Unreserved, undesignated	373,430	25,427	398,857
	<u>373,430</u>	<u>876,825</u>	<u>1,250,255</u>
Total fund balance			
Total liabilities and fund balance	\$ 624,295	\$ 876,825	\$ 1,501,120

CITY OF STURGIS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2004

	Special Revenue Funds	Permanent Funds	Total Non-Major Governmental Funds
Revenue			
License and permits	\$ 48,790	\$ -	\$ 48,790
State shared revenue	15,680	-	15,680
State grants	35,601	-	35,601
Charges for services	915,684	15,640	931,324
Fines and forfeits	91,090	-	91,090
Interest income	1,333	21,970	23,303
Other	151,844	-	151,844
	<u>1,260,022</u>	<u>37,610</u>	<u>1,297,632</u>
Total revenue			
Expenditures			
General government	314,373	-	314,373
Public safety	129,668	-	129,668
Recreation and cultural	2,000,058	-	2,000,058
Capital outlay	36,909	-	36,909
	<u>2,481,008</u>	<u>-</u>	<u>2,481,008</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(1,220,986)	37,610	(1,183,376)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	1,152,845	-	1,152,845
Operating transfers out	-	(22,845)	(22,845)
	<u>1,152,845</u>	<u>(22,845)</u>	<u>1,130,000</u>
Total other financing sources (uses)			
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(68,141)	14,765	(53,376)
FUND BALANCE - BEGINNING OF YEAR	441,571	862,060	1,303,631
FUND BALANCE - END OF YEAR	<u>\$ 373,430</u>	<u>\$ 876,825</u>	<u>\$ 1,250,255</u>

**CITY OF STURGIS**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**SEPTEMBER 30, 2004**

	<u>Building Department Fund</u>	<u>Housing Department Fund</u>	<u>Cemetery Fund</u>	<u>Drug Enforcement Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 25,230	\$ 28,139	\$ 86,748	\$ 45,938
Receivables				
Accounts	1,970	-	1,718	-
Interest	-	-	-	-
Due from other funds	-	-	-	-
Due from component unit	-	85,000	-	-
Due from other governmental units	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 27,200</u>	<u>\$ 113,139</u>	<u>\$ 88,466</u>	<u>\$ 45,938</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accounts payable	\$ 1,332	\$ 2,882	\$ 4,544	\$ 4,316
Due to other funds	-	-	-	-
Accrued expenses	2,006	488	3,392	557
Deferred revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	3,338	3,370	7,936	4,873
Fund Balance				
Unreserved, undesignated	<u>23,862</u>	<u>109,769</u>	<u>80,530</u>	<u>41,065</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	<u>\$ 27,200</u>	<u>\$ 113,139</u>	<u>\$ 88,466</u>	<u>\$ 45,938</u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Library Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ -	\$ 42,118	\$ 107,350	\$ 43,529	\$ 80,549	\$ 459,601
-	12,507	-	-	468	16,663
-	-	-	330	-	330
-	-	-	-	-	-
-	-	-	-	-	85,000
45,899	-	-	-	-	45,899
-	-	4,504	-	-	4,504
-	12,009	-	-	289	12,298
<u>\$ 45,899</u>	<u>\$ 66,634</u>	<u>\$ 111,854</u>	<u>\$ 43,859</u>	<u>\$ 81,306</u>	<u>\$ 624,295</u>
\$ 18,504	\$ 29,905	\$ 2,373	\$ 9,214	\$ 17,386	\$ 90,456
20,535	-	-	-	-	20,535
5,722	8,840	1,084	6,859	5,545	34,493
-	21,523	53,307	1,768	28,783	105,381
44,761	60,268	56,764	17,841	51,714	250,865
1,138	6,366	55,090	26,018	29,592	373,430
<u>\$ 45,899</u>	<u>\$ 66,634</u>	<u>\$ 111,854</u>	<u>\$ 43,859</u>	<u>\$ 81,306</u>	<u>\$ 624,295</u>

**CITY OF STURGIS**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED SEPTEMBER 30, 2004**

	Building Department Fund	Housing Department Fund	Cemetery Fund	Drug Enforcement Fund
Revenue				
License and permits	\$ 48,790	\$ -	\$ -	\$ -
State shared revenue	-	-	-	-
State grants	-	-	-	-
Charges for services	-	-	83,225	-
Fines and forfeits	-	-	-	12,832
Interest income	-	-	-	-
Other	-	-	4,523	24,202
	<u>48,790</u>	<u>-</u>	<u>87,748</u>	<u>37,034</u>
Total revenue	48,790	-	87,748	37,034
Expenditures				
General government	-	78,806	235,567	-
Public safety	94,504	-	-	35,164
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
	<u>94,504</u>	<u>78,806</u>	<u>235,567</u>	<u>35,164</u>
Total expenditures	94,504	78,806	235,567	35,164
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	(45,714)	(78,806)	(147,819)	1,870
OTHER FINANCING SOURCES (USES)				
Operating transfers in	30,000	55,000	172,845	25,000
Operating transfers out	-	-	-	-
	<u>30,000</u>	<u>55,000</u>	<u>172,845</u>	<u>25,000</u>
Total other financing sources (uses)	30,000	55,000	172,845	25,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(15,714)	(23,806)	25,026	26,870
FUND BALANCE - BEGINNING OF YEAR	39,576	133,575	55,504	14,195
FUND BALANCE - END OF YEAR	<u>\$ 23,862</u>	<u>\$ 109,769</u>	<u>\$ 80,530</u>	<u>\$ 41,065</u>

<u>Parks and Recreation Fund</u>	<u>Civic Auditorium Fund</u>	<u>Sturgis Arts Council Fund</u>	<u>Library Fund</u>	<u>Doyle Community Center Fund</u>	<u>Combined Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,790
-	-	-	15,680	-	15,680
35,601	-	-	-	-	35,601
92,900	366,034	76,296	12,346	284,883	915,684
-	-	-	78,258	-	91,090
-	-	-	1,333	-	1,333
<u>9,420</u>	<u>12,810</u>	<u>56,324</u>	<u>13,065</u>	<u>31,500</u>	<u>151,844</u>
137,921	378,844	132,620	120,682	316,383	1,260,022
-	-	-	-	-	314,373
-	-	-	-	-	129,668
409,817	623,415	128,035	474,611	364,180	2,000,058
<u>29,654</u>	<u>2,400</u>	<u>-</u>	<u>1,273</u>	<u>3,582</u>	<u>36,909</u>
<u>439,471</u>	<u>625,815</u>	<u>128,035</u>	<u>475,884</u>	<u>367,762</u>	<u>2,481,008</u>
(301,550)	(246,971)	4,585	(355,202)	(51,379)	(1,220,986)
300,000	220,000	-	330,000	20,000	1,152,845
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>300,000</u>	<u>220,000</u>	<u>-</u>	<u>330,000</u>	<u>20,000</u>	<u>1,152,845</u>
(1,550)	(26,971)	4,585	(25,202)	(31,379)	(68,141)
<u>2,688</u>	<u>33,337</u>	<u>50,505</u>	<u>51,220</u>	<u>60,971</u>	<u>441,571</u>
<u>\$ 1,138</u>	<u>\$ 6,366</u>	<u>\$ 55,090</u>	<u>\$ 26,018</u>	<u>\$ 29,592</u>	<u>\$ 373,430</u>

CITY OF STURGIS  
NON-MAJOR PERMANENT FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2004

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 235,310	\$ 44,085	\$ 279,395
Investments	590,088	7,286	597,374
Receivables			
Accounts	-	-	-
Interest	-	56	56
Due from other funds	-	-	-
<b>Total assets</b>	<u>\$ 825,398</u>	<u>\$ 51,427</u>	<u>\$ 876,825</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to other governmental units	-	-	-
Due to others	-	-	-
<b>Total liabilities</b>	-	-	-
Fund Balance			
Reserved for endowments	825,398	26,000	851,398
Unreserved, undesignated	-	25,427	25,427
<b>Total fund balance</b>	<u>825,398</u>	<u>51,427</u>	<u>876,825</u>
<b>Total liabilities and fund balance</b>	<u>\$ 825,398</u>	<u>\$ 51,427</u>	<u>\$ 876,825</u>

CITY OF STURGIS  
NON-MAJOR PERMANENT FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2004

	Cemetery Trust Fund	Hospital Trust Fund	Combined Totals
Revenue			
Charges for services	\$ 15,640	\$ -	\$ 15,640
Investment income	<u>21,452</u>	<u>518</u>	<u>21,970</u>
Total revenue	37,092	518	37,610
Expenditures			
General government	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES	37,092	518	37,610
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(22,845)</u>	<u>-</u>	<u>(22,845)</u>
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	14,247	518	14,765
FUND BALANCE - BEGINNING OF YEAR	<u>811,151</u>	<u>50,909</u>	<u>862,060</u>
FUND BALANCE - END OF YEAR	<u>\$ 825,398</u>	<u>\$ 51,427</u>	<u>\$ 876,825</u>

CITY OF STURGIS  
NON-MAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004

	Economic Development Fund	Economic Enhancement Fund
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and equivalents	\$ 631,888	\$ 276,466
Receivables		
Notes - current portion	87,753	-
Accounts	-	-
Interest	2,218	-
Grants	-	-
Advances due from other funds	-	-
Total current assets	721,859	276,466
NONCURRENT ASSETS		
Notes receivable	422,247	-
Advances due from other funds	-	-
Other assets	-	200,000
Capital assets, net of depreciation	-	-
Total noncurrent assets	422,247	200,000
Total assets	1,144,106	476,466
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	-	-
Accounts payable	68	3,186
Accrued expenses	-	1,124
Due to other funds	-	-
Total current liabilities	68	4,310
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	-	200,000
Total liabilities	68	204,310
NET ASSETS		
Invested in capital assets, net of related debt	-	(200,000)
Unrestricted	1,144,038	472,156
Total net assets	\$ 1,144,038	\$ 272,156

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 19,937	\$ 45,486	\$ 3,886	\$ 977,663
-	-	-	87,753
-	5,341	325,550	330,891
-	-	-	2,218
-	-	25,000	25,000
<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
49,937	50,827	354,436	1,453,525
-	-	-	422,247
87,200	-	-	87,200
-	-	-	200,000
<u>-</u>	<u>-</u>	<u>201,402</u>	<u>201,402</u>
<u>87,200</u>	<u>-</u>	<u>201,402</u>	<u>910,849</u>
137,137	50,827	555,838	2,364,374
30,000	-	46,675	76,675
-	1,850	8,903	14,007
-	-	10,348	11,472
<u>-</u>	<u>-</u>	<u>324,290</u>	<u>324,290</u>
30,000	1,850	390,216	426,444
<u>100,000</u>	<u>-</u>	<u>152,587</u>	<u>452,587</u>
130,000	1,850	542,803	879,031
(130,000)	-	2,140	(327,860)
<u>137,137</u>	<u>48,977</u>	<u>10,895</u>	<u>1,813,203</u>
<u>\$ 7,137</u>	<u>\$ 48,977</u>	<u>\$ 13,035</u>	<u>\$ 1,485,343</u>

CITY OF STURGIS  
NON-MAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2004

	Economic Development Fund	Economic Enhancement Fund
OPERATING REVENUE		
Charges for services	\$ -	\$ -
Federal grants	-	-
State grants	-	23,127
Interest revenue	<u>17,655</u>	<u>-</u>
Total operating revenue	17,655	23,127
OPERATING EXPENSES		
Material, maintenance and other	-	-
General and administrative	4,080	104,682
Depreciation and amortization	-	-
Provision for loan losses	<u>200,000</u>	<u>-</u>
Total operating expenses	<u>204,080</u>	<u>104,682</u>
OPERATING INCOME (LOSS)	(186,425)	(81,555)
NONOPERATING REVENUE (EXPENSES)		
Investment income	18,170	-
Interest expense	<u>-</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>18,170</u>	<u>-</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	(168,255)	(81,555)
OTHER FINANCING SOURCES		
Transfers in	<u>-</u>	<u>55,000</u>
CHANGE IN NET ASSETS	(168,255)	(26,555)
NET ASSETS - BEGINNING OF YEAR	<u>1,312,293</u>	<u>298,711</u>
NET ASSETS - ENDING OF YEAR	<u>\$ 1,144,038</u>	<u>\$ 272,156</u>

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 8,757	\$ 39,039	\$ 334,653	\$ 382,449
-	-	65,000	65,000
-	-	-	23,127
-	-	-	17,655
8,757	39,039	399,653	488,231
-	-	323,807	323,807
1,542	34,996	36,991	182,291
-	-	22,378	22,378
-	-	-	200,000
1,542	34,996	383,176	728,476
7,215	4,043	16,477	(240,245)
-	-	-	18,170
(9,440)	-	(3,442)	(12,882)
(9,440)	-	(3,442)	5,288
(2,225)	4,043	13,035	(234,957)
-	-	-	55,000
(2,225)	4,043	13,035	(179,957)
9,362	44,934	-	1,665,300
\$ 7,137	\$ 48,977	\$ 13,035	\$ 1,485,343

**CITY OF STURGIS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2004**

	Economic Development Fund	Economic Enhancement Fund
Cash flows from operating activities		
Receipts from customers and users	\$ -	\$ -
Receipts from operating grants	-	99,345
Net loans (made) collected	-	-
Interest received on loans	16,190	-
Payments to employees and suppliers	<u>(4,012)</u>	<u>(107,105)</u>
Net cash provided by (used for) operating activities	12,178	(7,760)
Cash flows from non-capital financing activities		
Transfers in	-	55,000
Cash flows from capital and related financing activities		
Principal paid on debt	-	-
Interest paid on debt	-	-
Customer deposits	-	(200,000)
Acquisition of capital assets	-	-
Proceeds from issuance of debt	-	200,000
Receipts from interfund advances	<u>-</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	-	-
Cash flows from investing activities		
Interest received on investments	<u>18,170</u>	<u>-</u>
Net increase (decrease) in cash	30,348	47,240
Cash - Beginning of Year	<u>601,540</u>	<u>229,226</u>
Cash - End of Year	<u>\$ 631,888</u>	<u>\$ 276,466</u>

Continued on next page

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 8,757	\$ 37,402	\$ 9,103	\$ 55,262
-	-	40,000	139,345
-	-	-	-
-	-	-	16,190
(4,657)	(34,342)	(17,535)	(167,651)
4,100	3,060	31,568	43,146
-	-	-	55,000
(30,000)	-	(24,518)	(54,518)
(9,440)	-	(3,164)	(12,604)
(13,719)	-	-	(213,719)
-	-	(223,780)	(223,780)
-	-	223,780	423,780
32,800	-	-	32,800
(20,359)	-	(27,682)	(48,041)
-	-	-	18,170
(16,259)	3,060	3,886	68,275
36,196	42,426	-	909,388
<u>\$ 19,937</u>	<u>\$ 45,486</u>	<u>\$ 3,886</u>	<u>\$ 977,663</u>

CITY OF STURGIS  
NON-MAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF CASH FLOWS - Continued  
YEAR ENDED SEPTEMBER 30, 2004

	Economic Development Fund	Economic Enhancement Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (186,425)	\$ (81,555)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	-	-
Provision for loan losses	200,000	-
(Increase) decrease in		
Accounts receivable	-	-
Loans receivable	-	-
Interest receivable	(1,465)	-
Grants receivable	-	76,218
Increase (decrease) in		
Accounts payable	68	(2,676)
Accrued expenses	-	253
Due to other funds	-	-
Net cash provided by (used for) operating activities	<u>\$ 12,178</u>	<u>\$ (7,760)</u>

Grobhiser Building Fund	Area Network Fund	EMS/ Ambulance Fund	Combined Totals
\$ 7,215	\$ 4,043	\$ 16,477	\$ (240,245)
-	-	22,378	22,378
-	-	-	200,000
-	(1,637)	(325,550)	(327,187)
-	-	-	-
-	-	-	(1,465)
-	-	(25,000)	51,218
(3,115)	654	8,903	3,834
-	-	10,070	10,323
-	-	324,290	324,290
<u>\$ 4,100</u>	<u>\$ 3,060</u>	<u>\$ 31,568</u>	<u>\$ 43,146</u>

**CITY OF STURGIS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004**

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash and equivalents	\$ 860,692	\$ 23,862	\$ 113,622	\$ 998,176
Investments	-	21,905	123,065	144,970
Receivables - interest	-	37	3,061	3,098
Due from other funds	-	369,865	-	369,865
Inventory	4,814	-	-	4,814
Total current assets	865,506	415,669	239,748	1,520,923
<b>NONCURRENT ASSETS</b>				
Capital assets, net of depreciation	1,520,326	-	-	1,520,326
Total assets	2,385,832	415,669	239,748	3,041,249
<b><u>LIABILITIES</u></b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	87,508	-	-	87,508
Accounts payable	22,074	20,000	50,000	92,074
Accrued expenses	1,803	-	-	1,803
Due to other funds	-	-	-	-
Total current liabilities	111,385	20,000	50,000	181,385
<b>NONCURRENT LIABILITIES</b>				
Long-term debt, net of current portion	616,344	-	-	616,344
Total liabilities	727,729	20,000	50,000	797,729
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	816,474	-	-	816,474
Unrestricted	841,629	395,669	189,748	1,427,046
Total net assets	<u>\$ 1,658,103</u>	<u>\$ 395,669</u>	<u>\$ 189,748</u>	<u>\$ 2,243,520</u>

CITY OF STURGIS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2004

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
OPERATING REVENUE				
Charges to other funds	\$ 709,675	\$ 139,424	\$1,370,097	\$ 2,219,196
Other revenues	<u>10,858</u>	<u>-</u>	<u>99,964</u>	<u>110,822</u>
Total operating revenue	720,533	139,424	1,470,061	2,330,018
OPERATING EXPENSES				
Operating and administrative	424,013	-	15,439	439,452
Insurance premiums and claims	-	161,794	1,618,334	1,780,128
Depreciation	<u>316,573</u>	<u>-</u>	<u>-</u>	<u>316,573</u>
Total operating expenses	<u>740,586</u>	<u>161,794</u>	<u>1,633,773</u>	<u>2,536,153</u>
OPERATING INCOME (LOSS)	(20,053)	(22,370)	(163,712)	(206,135)
NONOPERATING REVENUE (EXPENSE)				
Interest revenue	-	3,745	4,542	8,287
Gain (loss) on sale of fixed assets	-	-	-	-
Interest expense	<u>(37,926)</u>	<u>-</u>	<u>-</u>	<u>(37,926)</u>
Total nonoperating revenue (expense)	<u>(37,926)</u>	<u>3,745</u>	<u>4,542</u>	<u>(29,639)</u>
CHANGE IN NET ASSETS	(57,979)	(18,625)	(159,170)	(235,774)
NET ASSETS - BEGINNING OF YEAR	<u>1,716,082</u>	<u>414,294</u>	<u>348,918</u>	<u>2,479,294</u>
NET ASSETS - END OF YEAR	<u>\$ 1,658,103</u>	<u>\$ 395,669</u>	<u>\$ 189,748</u>	<u>\$ 2,243,520</u>

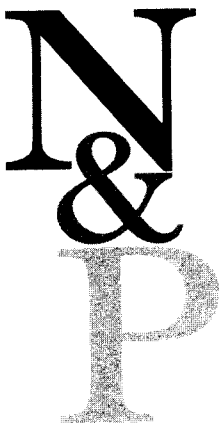
**CITY OF STURGIS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2004**

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Cash flows from				
operating activities				
Receipts from customers	\$ 10,858	\$ -	\$ 99,964	\$ 110,822
Receipts for internal services provided	709,675	125,809	1,370,097	2,205,581
Payments to suppliers	(376,906)	(127,054)	(1,668,894)	(2,172,854)
Payments to employees	(53,207)	-	-	(53,207)
Net cash provided by (used for) operating activities	290,420	(1,245)	(198,833)	90,342
Cash flows from capital and related financing activities				
Acquisition of capital assets	(130,352)	-	-	(130,352)
Proceeds from sale of capital assets	-	-	-	-
Principal paid on debt	(86,346)	-	-	(86,346)
Interest paid on debt	(37,926)	-	-	(37,926)
Net cash provided by (used for) capital and related financing activities	(254,624)	-	-	(254,624)
Cash flows from investing activities				
Purchase of investments	-	-	(123,066)	(123,066)
Proceeds from maturity of investments	-	11,123	122,219	133,342
Interest on investments	-	3,984	1,983	5,967
Net cash provided by (used for) investing activities	-	15,107	1,136	16,243
Net increase (decrease) in cash	35,796	13,862	(197,697)	(148,039)
Cash - Beginning of Year	824,896	10,000	311,319	1,146,215
Cash - End of Year	<u>\$ 860,692</u>	<u>\$ 23,862</u>	<u>\$ 113,622</u>	<u>\$ 998,176</u>

Continued on next page

CITY OF STURGIS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS - Continued  
YEAR ENDED SEPTEMBER 30, 2004

	Motor Vehicle and Equipment Fund	Workers' Compensation Self- Insurance Fund	Employee Benefit Fund	Combined Totals
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (20,053)	\$ (22,370)	\$ (163,712)	\$ (206,135)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	316,573	-	-	316,573
(Increase) decrease in				
Receivables	-	34,740	-	34,740
Due from other funds	-	(13,615)	-	(13,615)
Inventory	(4,814)	-	-	(4,814)
Increase (decrease) in				
Accounts payable	(1,935)	-	-	(1,935)
Accrued expenses	649	-	-	649
Due to other funds	-	-	(35,121)	(35,121)
Net cash provided by (used for) operating activities	<u>\$ 290,420</u>	<u>\$ (1,245)</u>	<u>\$ (198,833)</u>	<u>\$ 90,342</u>



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Commission  
City of Sturgis

We have audited the financial statements of City of Sturgis as of and for the year ended September 30, 2004, and have issued our report thereon dated March 24, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Norman & Paulsen, P.C.

Certified Public Accountants

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Compliance - As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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Internal Control Over Financial Reporting - In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Commission, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

March 24, 2005

*Norman & Paulsen, P.C.*

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